
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION ACTION SPURS CONTINUED DEVELOPMENT OF COMPETITIVE BULK POWER MARKETS

The Federal Energy Regulatory Commission today took a major step in promoting the continued development of an open and more competitive market in bulk power sales of electricity, saying it wants regional transmission organizations (RTOs) in place nationwide. It proposes a voluntary and collaborative process in which the Commission would provide the regulatory flexibility to accommodate regional needs.

In a Notice of Proposed Rulemaking (NOPR), the Commission spells out minimum characteristics and functions for RTOs. These organizations, among other things, must be independent from market participants, have appropriate regional scope and configuration, have operational authority over transmission facilities, and have authority to maintain reliability.

It proposes that all public utilities that own, operate or control interstate transmission file by October 15, 2000, a proposal for an RTO or, alternatively, a description of any efforts made by the utility to participate in an RTO, the reasons for not participating and any obstacles to participation, and any plans for further work toward participation. The RTOs would be operational by December 15, 2001.

"RTOs are the logical next step as the electric industry continues its restructuring," said Chairman James J. Hoecker. "Our proposed rule will result in more efficiency and less discrimination in bulk power markets and potentially billions in savings for consumers. Importantly, the proposed rule will make a major contribution to continued reliability of the Nation's transmission grid during a time of growing competition and industry reorganization. Once again, this Commission has shown positive leadership in providing certainty to the market."

A public utility that is a member of an existing transmission entity that conforms to Independent System Operator (ISO) principles would have until January 15, 2001, to explain

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the extent to which the organization meets the minimum standards for an RTO.

The Commission stresses that it is not proposing to require or prohibit any one form of organization for RTOs. The standards can be satisfied, for example, by non-profit ISOs, for-profit transmission companies (transcos), or combinations of the two.

The Commission's proposal includes "an open architecture" policy under which all RTO proposals must allow the organization the flexibility to improve in terms of structure, operations, market support, and regional scope. In turn, the Commission would provide the regulatory flexibility to accommodate such change.

Key Goal

The objective of its proposed rule, the Commission says, is to get RTOs in place in a timely manner. The Commission's preference is for voluntary participation in RTOs. The Commission stated it would consider incentive transmission pricing proposals on a case-specific basis.

The NOPR notes that since the Commission ordered transmission providers to offer non-discriminatory service to competitors some three years ago in Order Nos. 888 and 889, the industry has undergone sweeping changes. It cites divestiture by many utilities of generation assets, increased merger activity between both electric utilities and between electric and gas utilities, new participants in the form of independent power marketers, and generators, increases in the volume of trade, state efforts to create retail competition, and new and different uses of the transmission grid, including increased use of transmission loading relief to ease congestion.

Advantages of RTOs

RTOs can alleviate the resulting stress on the bulk power system. They can improve efficiencies in the transmission grid management through better pricing and congestion management, improve grid reliability, remove remaining opportunities for discriminatory transmission practices, improve market performance, and facilitate lighter-handed regulation.

RTO Standards

The establishment of minimum characteristics and functions for RTOs is a key piece of the Commission's proposed rule. Four primary characteristics and seven functions are described as essential for Commission approval of an RTO.

The required characteristics are:

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- the RTO must be independent from market participants;
- it must serve a region of sufficient scope and configuration to permit the RTO to perform effectively and support efficient and non-discriminatory power markets;
- it must have operational responsibility for all transmission facilities under its control; and
- it must have exclusive authority for maintaining the short-term reliability of the grid it operates.

The required functions are:

- the RTO must administer its own transmission tariff and use a transmission pricing system that promotes efficient use and expansions of transmission and generation facilities;
- it must ensure the development and operation of market mechanisms to manage transmission congestion;
- it must develop and implement procedures to address parallel path flow issues both within its own region and with other regions;
- it must serve as supplier of last resort for all ancillary services required by Order No. 888 and other Commission orders;
- it must be the single OASIS--the Open Access Same-Time Information System--site administrator for all transmission facilities under its control and independently calculate total transmission capacity (TTC) and available transmission capacity (ATC);
- it must monitor markets for transmission services, ancillary services and bulk power to identify design flaws and market power and propose appropriate remedial actions; and
- it must be responsible for planning necessary transmission additions and upgrades in coordination with appropriate state authorities.

Collaborative Process

The Commission plans to sponsor and support regional workshops and a collaborative process on RTO formation in the spring of 2000. Under this process, the Commission expects that public and non-public utilities, in coordination with appropriate state officials and affected interest groups to fully participate in working to develop an RTO. The Commission proposes to make staff resources, including settlement judges, available through its Dispute Resolution Service, to assist in designing and possibly facilitating regional collaborations following workshops.

State Role

The Commission emphasizes that under its proposed rule the jurisdiction of the states would remain intact in regard to retail competition and regulation, siting and retail reliability. The proposed rule would encourage RTO design that accommodates state oversight. The Commission seeks comment on the appropriate state role in RTO governance, and notes the need for flexibility in the creation of individual RTOs as well as in rate making.

Environment

The Commission indicated it would prepare an environmental assessment (EA) to consider the environmental impact of the proposed rule. A Notice of Intent to prepare an EA and hold a scoping meeting will be issued in the near future.

Comments

Initial comments on the NOPR are due before 5 p.m. August 16, 1999. Reply comments are due before 5 p.m. September 15, 1999. Comments should be submitted to the Office of the Secretary, FERC, 888 First St., NE, Washington, DC 20426 and should refer to Docket No. RM99-2-000.